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MONTHLY PROJECTIONS
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GNP REVISIONS REDUCE INVENTORY REBOUND IN NEXT TWO QUARTERS

Although inventories continue to be lean relative to sales, a surprising increase in retail inventories during September has sharply reduced the inventory deficiency. Apparently, retailers failed to recognize the impact of additional stores upon available retail inventories in their calculations of inventory controls per store. Because of a rapid expansion in retail space and inventories (employment in retail establishments has been growing 1.5 times as rapidly as real retail sales during this expansion), inventories are not as lean as retailers anticipated. However, because they are comfortable with their per store inventory, retailers will blame sluggish consumer activity for their failure to meet budgeted amounts during the Christmas season. They are likely to try non-price sales efforts, such as extended hours, free gift wrap, and the like until Christmas. Then, significant post Christmas promotions are anticipated in order to remove the excess inventories.

The surge in retail inventories in September was largely responsible for the upward revision in inventory investment in the third quarter GNP. That upward adjustment also was primarily responsible for the upward adjustment in estimated GNP. Because inventories turn over more rapidly than other goods, the price deflator for inventories is substantially lower than the price index for other GNP components. Therefore, an upward revision in inventory investments leads to a downward revision in the GNP deflator as a result of a shift in the composition of GNP expenditures. On a fixed-weighted basis, inflation as measured by the GNP actually increased slightly during the third quarter. (The surge in automobile sales in August and September also flattened the GNP deflator, because automobile expenditures are based upon a lower implicit deflator than other GNP components. The sag in auto sales during the fourth quarter will reverse this composition change. Thus, the GNP deflator will be growing more than the fix-weighted index would anticipate during that quarter. Indeed, a surge in the deflator to more than 4%, while not anticipated here, could materialize.)

Because retailers are not yet aware that they have an inventory problem, the upward revisions during the third quarter will have only a modest impact upon restraining production in the fourth quarter. Early in 1986, however, reduced orders by retailers and some production adjustments in the automobile industry, where sales currently are trailing production by nearly 1.5 million units, will cause some significant slowing in industrial growth. By the second quarter, a minor rebound in consumer spending along with continued strength in construction should cause a slight spurt in economic activity. Oil prices also are expected to fall at that time. By the end of 1986, however, the declining dollar should begin to have some inflationary impact. In addition, net exports should begin improving, leading to positive contributions to economic activity. Consumer spending is expected to be modest, but positive, at that time. However, construction is expected to trend downward. In addition, capital spending is expected to show minimal growth. This explains the relatively sluggish performance during the latter part of 1986.

A sharp rebound in shipments of durable goods during October suggests that government spending for defense products will rise sharply in the fourth quarter. However, shipments were strong because of special aircraft deliveries; thus, a slump in shipments is anticipated early in 1986. Commercial aircraft shipments also were responsible for much of the sharp increase in shipments of nondefense capital goods. It is possible that these results are caused by reporting errors in that sector. However, if the data are not adjusted, substantial gains in fixed investment will develop in the fall followed by minimal expansion during the winter. Because the shipments of durables goods were not consistent with durable goods production as measured by the industrial production index in October, either that index will be revised upward or most of those shipments were at the expense of manufacturer's inventories. If the manufacturing report does not show a significant decrease in inventories of durable goods during October then some faulty data problems must account for the surprising shipment gains.

As expected, corporate profits rebounded sharply during the third quarter. Although some of this gain was the result of improved economic activity, most of the increase in profitability was caused by a reduction in interest payments. Returns to capital do not appear to be unusually robust. Indeed, those returns are expected to diminish slightly in the next few quarters. However, the percentage of those capital earnings available for equity holders has been increasing as interest rates have fallen. Because of more significant lags in adjusting interest costs for changes in interest rates than previously prevailed, these reductions in interest costs are anticipated until the first quarter of 1986. As a result, earnings on equity will be surprisingly robust through the remainder of this year. Some weakness in those earnings then is expected to materialize early in 1986. If this pattern holds, equity values can continue to move higher through the fourth quarter. They then must recognize the difficulties associated with corporate earnings early in 1986. The stock market then would be susceptible to weakness. This weakness would be especially dramatic if interest rates began pressing upward, as we anticipate early in 1986.

Although short-term interest rates have remained remarkably stable over the past six months, long-term interest rates have declined significantly. During much of this period, investors apparently believed that an economic rebound could lead to higher interest rates ahead. Early in November, however, investors began to believe that the economy was sluggish. As a result, short-

term interest rates could decline further. With long-term government bonds yielding more than the prime rate and with anticipations that interest rates could fall, smart investors accumulated long-term government bonds to benefit from the favorable spread between bond yields and the cost of holding bond inventories and to capture any price appreciation that would result from declining short-term rates. Under such conditions, long-term government yields could decline to the prime rate. However, our projections suggest that some slight upward pressures will develop for short-term interest rates in the next few months. This risk of higher carrying costs to hold bond inventories should discourage investors from maintaining their speculative positions. Therefore, government yields probably will rise about a half percentage point above the prime rate in the middle months of 1986. However, declining rates thereafter could once again establish profitable opportunity for bond investor in the second half of that year.

Economic Impact of Tax Reform

Although tax reform remains a longshot for 1986, the tax bill passed by the Ways and Means Committee established some ground rules for evaluating the next tax code change that may materialize.

Several principles appear to be developing: first, second homes will be treated the same as primary residences for tax purposes. This should improve the investment prospect of such assets. Second, repeal of the investment tax credit and more stringent depreciation guidelines will be the primary sources of raising revenues in order to reduce marginal tax rates for corporations and individuals. Third, both corporations and individuals will be subject to more stringent minimum tax rules in determining their tax liabilities. Fourth, most employer-provided benefits will remain tax deductible although unemployment insurance will become taxable.

Some economists maintain that this shift in the tax burden from the consumer sector to the corporate sector will reduce gross savings in the economy. This certainly appears to be an obvious consequence of the tax reform proposal. In addition, some economists maintain that continuing the macroeconomic objectives of the Federal Reserve would require higher interest rates to preserve the same level of expenditures and inflation with these reduced savings. However, such analysis fails to recognize that changes in the investment tax credit and in accelerated depreciation may reduce desired investment expenditures by a larger amount than the reduction in potential gross savings. Under such circumstances, interest rates could actually fall, a condition that we are generating in our analysis of the tax proposals.

Of course, some other economists recognize that the change in the investment tax credit and depreciation will adversely impact investment decisions. They conclude, therefore, that economic growth will slow. While this is possible, and certainly would be the case if interest rates increased, the proposals generally narrow the tax discrepancy between earnings generated by labor and capital resources. To the extent that tax benefits were especially generous for capital investment, leading to inefficient capital intensity, the adjusted tax code could generate increased total factor productivity and additional growth. Ideally, the adjustments will eliminate the construction of vacant buildings in Houston while having minimal impact upon constructing productive plants in Ohio. Indeed, if the inefficient capital intensity was substantial,

the declining interest cost associated with reduced investment activity could more than offset the increased tax liability facing productive capital resources. In that circumstance, the accumulation of efficient capital could increase, leading to more growth. Again, our analysis suggests that the proposal would raise total factor productivity, leading to increased growth over time.

For the above reasons, the tax proposals appear to be slightly beneficial for the allocation of resources over time.

Quarterly Profile of GNP

	1985-3	1985-4	1986-1	1986-2	1986-3	1986-4
Real:	4.3	3.1	2.6	3.3	2.1	2.0
Price:	2.3	3.7	4.2	3.6	4.4	4.2
Nominal:	6.7	6.9	7.0	7.1	6.6	6.4

Monthly Statistical Highlight for November 1985

Payroll employment +177,000; index of hours worked +0.2%; household employment +238,000; civilian unemployment rate 7.1%; personal income +0.4%; savings rate 2.8%; personal consumption +0.6%; retail sales +0.5%; auto sales 9.7 million; housing starts -0.7%; housing permits -1.9%; construction expenditures +0.7%; business inventory +0.3%; orders for durable goods +1.7%; orders for nondefense capital goods +2.8%; industrial production +0.3%; CPI +0.5%; PPI +0.3%; consumption deflator +0.3%; leading indicators +0.5%; real GNP +2.1%; M1 +5.6%; M2 +5.6%.

Monthly Statistical Highlight for December 1985

Payroll employment +311,000; index of hours worked +0.3%; household employment +388,000; civilian unemployment rate 6.9%; personal income +0.7%; savings rate 2.9%; personal consumption +0.5%; retail sales +0.4%; auto sales 9.6 million; housing starts -2.9%; housing permits -2.1%; construction expenditures +0.4%; business inventory +0.3%; orders for durable goods +0.5%; orders for nondefense capital goods +0.3%; industrial production +0.2%; CPI +0.3%; PPI +0.3%; consumption deflator +0.4%; leading indicators +0.1%; real GNP +2.9%; M1 +6.2%; M2 +8.8%.

COMMENTARY

Employment - The failure of the industrial production index to confirm the rapid payroll employment gains in October suggests that some distortions may have been present in the report. Apparently, the September report was unusually early in the month while the October report was unusually late. This may have created a greater increase in employment than actually occurred on a monthly basis. If so, much weaker employment growth should be anticipated for November even as the production index begins to rebound. In addition, the workweek probably has reached a high plateau for this cycle. Therefore, growth in the index of hours

worked should correspond more closely to growth in payroll employment than in the past two years.

Personal Income - Rental income continues to be adversely impacted by hurricane damage in the October and November reports. The degree of decline in October should be only half as large as in September before the November hurricanes once again sharply dampened personal income. Because of a rebound in farm prices, farm income should positively add to personal income in the next two months. On the other hand, it appears that the lagged impact of interest rate changes upon interest income has increased. Apparently, a larger segment of the earned income is contained in savings certificates. As these certificates mature, they will be replaced by certificates with lower yields. Until this rotation to lower yields ends, the interest component will continue to sag.

Our projections continue to contain unusually low savings rates. Some of this reflects the impact from charges to rental income as a result of hurricane damage. As a result of the hurricanes, there will be reduced savings both when personal repairs are made and also when the damage is assessed. In the one case, expenditures are increased while incomes are reduced to reflect casualty losses.

Construction - Housing starts in October remained relatively low in comparison to permits as the construction of rental property continues to lag the issuance of rental property permits. Tax uncertainty continues to be a factor in causing a discrepancy between starts and permits. Such a discrepancy is expected to continue into the early months of 1986. We currently feel that the permits will gradually become more appropriately realigned with starts after that time.

Construction expenditures were revised sharply downward in October to reflect more appropriate information on nonresidential private construction. This area remains relatively sluggish as a result of diminishing utility construction. On the other hand, residential construction is more vigorous than previously expected.

Business Activity - As mentioned above, a discrepancy developed between shipments of durable goods and industrial production in the durable goods industry. If this data is correct, then manufacturing inventories should decline in October. We are not yet willing to show such a decline, but such an outcome would lead to slightly lower fourth quarter GNP estimates than currently presented. We also are concerned with the sharp rebound in both defense and nondefense shipments as a result of significant deliveries of aircraft. These should develop at the expense of inventories of goods and processing leading to declining manufacturing inventory, but this remains to be seen.

Prices - The sharp increase in automobile sales led to a favorable composition restraint upon the consumption deflator in August and September. Because sales slumped so sharply in October, the composition shift will be adverse in that month. In addition, sharp increases are developing for the CPI because of significant price increases for meats. On the other hand, construction costs continue to show minimal change. This factor has led to a downward revision in our estimates of the GNP deflator during the next year.

Miscellaneous - Because of the reporting problems associated with the merchandise trade accounts, we are using a three-month moving average to adjust our estimates of current trade flows. This averaging technique probably is

generating some distortions in our monthly movements of economic activity. However, failure to smooth the merchandise trade balance would create unseemly fluctuations in monthly GNP that could not be rectified with employment and production data.

The inventory valuation adjustment showed a sharper improvement than originally anticipated. Apparently, falling prices for energy material through September created a significant portion of this favorable result. As those energy material prices are no longer favorable, the favorable IVA should gradually diminish.

FINANCIAL MARKETS

Money growth continues to exceed anticipations even though the monetary base has not been growing as vigorously as expected. This rapid increase in the money multiplier, to a record 2.67 in recent weeks, cannot be fully explained. In the last few weeks an increase in the federal funds rate suggests that growing money demand is partially responsible for this sharp increase in the money multiplier. However, technical distortions also must be present. In addition to the M1 distortions, favorable conditions in the equity markets have sharply reduced the growth of money market funds. This is having an adverse effect upon the growth of M2.

Apparently, the absence of government supply in the bond market had minimal effect upon bond prices in recent weeks. Indeed, a feeling that the discount rate may decline caused many bond traders to accumulate an increasing inventory of government securities. This caused yields of long-term government securities to converge toward the prime rate. If the prime rate rises in the next few months, as we anticipate, this flattening of the yield curve will be overdone. As a result, interest rates probably will rise for long-term instruments in the next few months. Similarly, the rally in the municipals market should come to an end. The tax reform package has not reduced the supply of tax exempt bonds as much as the President's proposal had desired. At the same time, the marginal tax rate is slightly higher in the Ways and Means proposal than in the President's program. In addition, banks believe that provisions that would deny the deductibility of interest expense against tax exempt bond portfolio will significantly reduce the attractiveness of those bonds for banks. Indeed, tax exempt instruments that are issued in January are selling at a .4 percentage point higher yield than those currently available and subject to the present tax code. This suggests that a vulnerability of at least a half percentage point, for the discrepancy must also adjust for probabilities that no tax reform will be forthcoming, appear to be facing tax exempt investors.

Equity Markets - Improvement in returns to equity holders and declining interest rates have been a one/two combination that clearly encourages higher equity values. If the bond market begins to retrench, equity earnings will need to grow dramatically to preserve current equity values. Some further increases in equity values appear likely through the end of 1985. However, the market then would be vulnerable to decline early in 1986.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	97707	97707	116.0	116.0	106862	106862	7.3	7.3	165.4	165.4
August	97987	97977	116.7	116.7	107172	107172	7.0	7.0	165.6	165.7
September	98115	98115	117.2	116.9	107544	107544	7.1	7.1	165.6	166.6
October	98496	98529	117.5	117.3	107853	107867	7.1	7.1	166.3	166.7
November	98823	98706*	117.7	117.5*	108196	108105*	7.1	7.1*	167.0	167.2*
December	99146	99017	118.0	117.9	108539	108493	7.0	6.9	167.7	167.6
January 1986	99301	99253	118.3	118.1	108716	108682	6.9	6.9	168.3	168.1
February	99422	99407	118.5	118.3	108893	108890	6.8	6.9	168.7	168.7
March	99545	99558	118.7	118.5	109070	109030	6.7	6.9	169.2	169.2
April	99764	99713	118.9	118.6	109283	109237	6.7	7.0	169.8	169.8
May	99981	99876	119.1	118.8	109516	109452	6.7	7.0	170.3	170.3
June	100198	100023	119.3	119.0	109782	109639	6.8	7.0	170.9	170.9
July	100306	100175	119.4	119.1	109913	109827	6.7	7.0	171.4	171.5
August	100417	100339	119.5	119.3	110029	110043	6.7	6.9	171.9	172.0
September	100529	100503	119.5	119.5	110142	110265	6.8	6.9	172.5	172.6
October	100683	100681	119.7	119.7	110316	110453	6.7	7.0	172.9	173.2
November	100840	100858	119.9	119.9	110548	110683	6.7	6.9	173.3	173.9
December	100997	101014	120.2	120.1	110780	110871	6.7	7.0	173.8	174.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	3.189	3.188	1.923	1.923	104.0	98.7	2.707	2.707	2.603	2.608
August	3.199	3.196	1.934	1.933	79.2	74.2	2.713	2.710	2.634	2.636
September	3.209	3.207	1.949	1.945	51.9	48.6	2.717	2.716	2.665	2.667
October	3.225	3.221	1.960	1.953	83.1	80.3	2.730	2.725	2.647	2.645
November	3.254	3.235*	1.972	1.963*	91.2	75.8*	2.755	2.736*	2.664	2.660*
December	3.279	3.257	1.985	1.976	92.2	79.5	2.777	2.755	2.685	2.675
January 1986	3.290	3.271	1.997	1.986	89.5	73.3	2.789	2.766	2.699	2.693
February	3.310	3.291	2.006	1.998	93.0	82.6	2.804	2.783	2.711	2.700
March	3.332	3.309	2.015	2.008	99.9	85.9	2.820	2.798	2.720	2.712
April	3.349	3.327	2.026	2.019	97.6	85.4	2.834	2.813	2.736	2.728
May	3.365	3.344	2.036	2.029	92.6	86.7	2.847	2.827	2.754	2.740
June	3.381	3.364	2.047	2.042	89.5	87.5	2.859	2.844	2.769	2.757
July	3.397	3.381	2.054	2.052	92.5	86.7	2.872	2.858	2.780	2.771
August	3.412	3.398	2.062	2.063	90.7	87.2	2.883	2.872	2.792	2.785
September	3.428	3.418	2.070	2.075	89.4	88.4	2.896	2.888	2.807	2.800
October	3.443	3.438	2.079	2.088	83.0	88.7	2.907	2.905	2.824	2.816
November	3.459	3.458	2.090	2.101	77.1	91.0	2.920	2.922	2.843	2.831
December	3.475	3.479	2.102	2.114	74.8	90.8	2.933	2.939	2.858	2.848

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	2506.9	2511.3	336.9	336.9	892.1	892.1	1277.9	1282.2	1103.1	1104.1
August	2536.1	2538.0	357.4	357.7	893.6	895.4	1285.1	1284.9	1114.8	1116.6
September	2566.6	2567.6	372.5	375.6	901.1	903.0	1292.9	1288.9	1127.7	1128.9
October	2546.9	2544.2	338.9	335.6	906.3	911.5	1301.7	1297.1	1112.2	1111.1*
November	2562.2	2559.3*	340.5	338.0*	911.1	916.0*	1310.6	1305.3*	1114.5	1113.7
December	2581.7	2573.3	342.1	337.6	916.2	921.3	1323.4	1314.4	1118.6	1115.6
January 1986	2595.5	2589.5	342.3	340.0	920.7	927.9	1332.5	1321.6	1121.7	1119.7
February	2606.1	2596.2	343.0	340.3	923.5	925.8	1339.6	1330.1	1122.8	1119.4
March	2614.3	2607.0	342.5	340.2	924.5	927.4	1347.3	1339.4	1122.5	1120.6
April	2629.3	2621.6	344.7	341.4	927.8	931.4	1356.8	1348.8	1126.0	1124.0
May	2645.8	2633.4	346.3	340.4	933.2	935.3	1366.3	1357.7	1129.7	1125.6
June	2659.5	2648.6	344.9	341.4	938.9	939.7	1375.7	1367.5	1131.7	1128.4
July	2668.4	2662.5	344.1	343.4	939.7	942.5	1384.6	1376.6	1130.7	1130.8
August	2680.1	2675.1	344.4	343.9	940.4	945.7	1395.3	1385.5	1131.3	1132.2
September	2693.3	2689.0	345.9	345.2	941.4	948.6	1406.0	1395.2	1132.6	1134.3
October	2709.4	2704.8	346.8	348.5	947.8	951.6	1414.8	1404.7	1135.1	1137.8
November	2727.0	2718.4	348.6	350.2	954.2	954.7	1424.2	1413.5	1138.6	1139.7
December	2741.0	2734.5	350.1	352.9	957.3	958.8	1433.6	1422.8	1140.7	1142.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	114.42	114.42	16.47	16.47	10.3	10.3	72.08	72.08	25.87	25.87
August	117.04	116.98	16.70	16.82	12.6	12.6	72.77	72.70	27.57	27.46
September	120.23	119.41	16.80	16.79	14.5	14.5	73.22	72.96	30.20	29.67
October	115.85	115.51	16.84	17.43	9.8	9.6	73.68	72.76	25.33	25.33
November	115.91	116.06*	16.90	17.25*	9.9	9.7*	74.05	73.28*	24.96	25.53*
December	115.88	116.47	16.96	17.32	10.1	9.6	74.14	73.70	24.78	25.42
January 1986	116.68	117.27	17.01	17.39	9.9	9.7	74.58	74.23	25.09	25.65
February	117.26	117.73	17.08	17.35	9.9	9.7	75.13	74.66	25.05	25.72
March	117.23	117.85	17.15	17.38	9.8	9.6	75.01	74.79	25.07	25.68
April	117.89	118.32	17.25	17.46	9.8	9.6	75.49	75.11	25.15	25.75
May	118.27	118.52	17.20	17.50	9.9	9.5	75.75	75.43	25.32	25.59
June	118.55	118.99	17.20	17.45	9.9	9.6	76.02	75.78	25.33	25.76
July	118.60	119.75	17.28	17.59	9.7	9.7	76.28	76.01	25.04	25.88
August	118.87	119.80	17.35	17.71	9.6	9.7	76.46	76.27	25.06	25.82
September	118.59	120.20	17.20	17.66	9.5	9.8	76.30	76.50	25.09	26.04
October	119.45	120.86	17.32	17.69	9.5	9.8	76.86	76.74	25.27	26.43
November	120.25	121.32	17.45	17.78	9.6	9.8	77.36	76.99	26.44	26.55
December	120.95	121.99	17.46	17.84	9.7	9.9	77.89	77.32	25.60	26.83

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	1.663	1.663	1.062	1.062	1.694	1.694	340.2	344.8	201.7	204.4
August	1.746	1.740	1.074	1.059	1.784	1.784	344.0	344.7	204.5	204.9
September	1.583	1.589	0.962	0.970	1.796	1.804	348.0	346.1	206.7	205.8
October	1.685	1.760	1.003	1.123	1.741	1.675	348.3	347.8	206.0	206.7
November	1.723	1.748*	1.058	1.094*	1.683	1.643*	349.0	350.1*	205.3	207.5*
December	1.734	1.697	1.065	1.056	1.675	1.608	350.9	351.4	205.3	207.7
January 1986	1.708	1.727	1.025	1.065	1.638	1.611	352.2	352.7	205.5	207.7
February	1.695	1.763	1.027	1.080	1.563	1.634	354.9	352.9	206.6	207.2
March	1.691	1.777	1.053	1.123	1.558	1.659	357.6	353.4	207.8	206.9
April	1.708	1.759	1.046	1.117	1.569	1.668	359.2	356.6	207.9	208.1
May	1.713	1.711	1.057	1.088	1.583	1.619	360.5	358.6	207.9	208.6
June	1.649	1.709	1.065	1.102	1.542	1.598	362.1	359.2	208.1	208.5
July	1.628	1.656	1.053	1.093	1.497	1.563	362.9	360.2	208.0	208.4
August	1.615	1.600	1.058	1.057	1.483	1.527	363.4	359.4	207.7	207.4
September	1.603	1.597	1.046	1.070	1.480	1.508	364.0	358.9	207.4	206.4
October	1.583	1.593	1.050	1.078	1.472	1.496	362.2	359.0	205.7	205.8
November	1.587	1.631	1.051	1.099	1.483	1.524	360.4	359.4	203.8	205.5
December	1.618	1.666	1.063	1.122	1.491	1.546	360.9	360.9	203.3	205.8

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	131.0	131.1	64.7	64.5	144.5	149.2
August	132.3	132.4	64.4	64.0	147.2	148.3
September	133.5	133.7	64.8	63.4	149.7	149.0
October	135.0	132.4	65.0	64.0	148.3	151.4
November	136.6	133.6*	64.8	64.3*	147.6	152.2*
December	138.1	134.8	64.9	64.5	147.9	152.1
January 1986	139.0	135.2	63.9	64.5	149.3	153.0
February	140.1	135.9	64.0	64.6	150.8	152.4
March	141.2	136.3	64.2	64.7	152.2	152.4
April	142.2	137.2	65.0	65.0	152.0	154.4
May	143.1	138.3	66.1	65.4	151.3	154.9
June	144.0	138.9	67.3	65.7	150.8	154.6
July	144.7	139.5	67.7	66.3	150.5	154.4
August	145.3	140.0	68.1	66.8	150.0	152.6
September	145.8	140.6	68.6	67.2	149.6	151.1
October	146.0	141.5	67.9	67.7	148.3	149.8
November	146.2	142.3	66.8	68.0	147.4	149.1
December	146.2	143.0	67.2	68.2	147.5	149.7

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	285.0	285.0	104.37	104.37	26.69	26.69	27.04	27.04
August	284.6	284.7	107.33	107.66	27.55	27.55	27.79	27.79
September	284.9	284.2	106.11	106.64	28.85	29.24	26 54	26.72
October	285.2	284.8*	105.58	104.45	28.26	27.09	27.25	27.80
November	285.9	285.5	105.03	106.23*	28.11	27.85*	27.39	27.59*
December	286.5	286.1	105.46	106.74	28.42	27.92	27.54	27.83
January 1986	287.7	286.9	107.19	107.64	28.93	28.15	27.81	27.96
February	289.0	288.0	107.63	108.01	29.06	28.31	27.93	28.04
March	290.1	289.2	104.85	107.43	27.62	27.82	27.76	28.01
April	291.6	290.5	104.99	106.97	27.95	27.96	28.04	28.23
May	292.9	291.8	106.27	108.46	28.36	28.43	28.36	28.49
June	294.3	293.1	107.73	109.13	28.53	28.61	28.70	28.58
July	295.8	294.2	108.82	109.27	28.75	28.77	28.86	28.72
August	297.5	295.3	108.51	109.82	28.92	28.84	28.55	28.81
September	298.9	296.1	107.65	109.07	28.68	28.69	28.67	28.93
October	300.2	297.2	106.93	108.83	28.62	28.75	28.95	29.04
November	301.7	298.5	105.88	108.46	28.51	28.63	29.10	29.08
December	303.0	299.8	106.27	108.21	28.68	28.60	29.19	29.05

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	580.1	580.1	6.83	6.83	124.1	124.1	80.2	80.2
August	577.9	578.2	7.16	7.16	124.8	125.0	80.5	80.6
September	574.2	579.5	7.07	7.13	124.7	124.9	80.2	80.4
October	576.3	580.7*	7.15	7.71	125.1	124.9	80.3	80.2
November	577.8	582.2	7.21	7.28*	125.7	125.3*	80.5	80.3*
December	579.1	584.0	7.25	7.33	126.2	125.5	80.6	80.3
January 1986	581.6	585.3	7.36	7.35	126.7	125.6	80.8	80.1
February	584.3	586.9	7.47	7.46	127.1	125.9	80.9	80.2
March	587.1	588.8	7.60	7.63	127.8	126.2	81.1	80.3
April	590.0	591.0	7.71	7.70	128.0	126.2	81.0	80.1
May	592.8	593.6	7.75	7.79	127.8	126.4	80.7	80.1
June	595.7	596.1	7.77	7.84	127.6	126.5	80.4	80.0
July	598.4	600.3	7.89	7.92	127.4	126.3	80.1	79 7
August	601.3	602.7	8.01	8.05	127.2	126.4	79.8	79.6
September	604.4	604.8	8.10	8.14	127.2	126.5	79.6	79.5
October	607.6	607.9	8.18	8.20	127.1	126.8	79.3	79.6
November	610.5	610.8	8.27	8.31	127.1	126.9	79.1	79.5
December	613.4	614.3	8.36	8.43	127.0	127.0	78.8	79.4

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	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	322.4	322.4	294.4	294.4	324.3	324.3	231.80	231.66
August	323.3	323.0	293.5	293.5	323.6	323.6	232.45	231.93
September	324.2	323.6	291.7	291.7	322.5	322.5	233.07	231.96
October	325.3	324.6	293.6	294.4	324.3	324.4	234.18	233.22
November	326.5	326.2*	294.8	295.4*	324.5	325.4*	234.76	234.07
December	327.7	327.2	295.6	296.3	324.7	325.6	235.46	234.99
January 1986	328.6	328.2	296.1	297.1	325.0	325.9	236.35	235.68
February	329.5	329.1	297.0	297.8	324.5	325.5	237.30	236.36
March	330.4	330.1	297.8	298.2	324.6	325.1	238.04	236.12
April	331.9	330.9	298.5	298.5	325.0	325.5	238.72	237.78
May	333.3	332.1	299.3	299.0	325.9	326.2	239.64	238.54
June	334.8	333.1	300.1	299.6	326.8	327.1	240.56	239.35
July	335.9	334.2	300.7	300.2	327.0	327.6	241.50	240.14
August	337.1	335.4	301.5	300.9	327.9	328.3	242.42	241.06
September	338.3	336.5	302.0	301.4	326.2	326.5	243.34	241.97
October	339.5	337.5	303.1	301.8	328.6	329.2	244.17	242.74
November	340.7	338.7	303.9	302.4	328.8	330.0	245.06	243.62
December	341.9	339.8	304.4	303.0	329.1	330.4	245.95	244.46

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	227.3	227.5	177.8	177.8	221.7	221.7	250.0	250.4	168.7	168.7
August	227.5	227.3	178.8	178.3	221.7	221.4	251.0	251.2	168.2	168.2
September	227.6	227.4	179.1	178.3	222.0	222.1	251.9	252.0	168.3	168.2
October	229.0	229.0*	177.8	177.5*	222.9	222.8*	252.9	252.9*	169.1	168.3*
November	229.9	229.8	178.0	177.8	223.9	223.8	254.0	253.8	170.0	168.7
December	230.8	230.7	178.2	178.1	224.8	224.7	254.8	254.7	170.9	169.2
January 1986	231.4	231.3	178.4	178.4	225.2	225.1	255.9	255.7	171.4	169.8
February	232.1	231.9	178.6	178.6	225.6	225.5	257.0	256.6	171.8	170.3
March	232.9	232.6	178.9	178.9	225.8	225.7	258.1	257.8	172.1	170.8
April	233.5	233.2	179.1	179.2	226.3	226.1	259.1	258.6	172.8	171.4
May	234.2	234.0	179.3	179.5	226.8	226.5	260.2	259.6	173.4	171.9
June	235.0	234.7	179.5	179.8	227.4	227.0	261.3	260.7	174.0	172.3
July	236.0	235.5	179.8	180.1	228.0	227.5	262.7	261.8	174.5	172.8
August	236.9	236.3	180.1	180.4	228.6	228.1	264.0	262.9	175.0	173.3
September	237.8	237.1	180.4	180.7	229.2	228.7	265.3	264.0	175.5	173.9
October	238.7	237.7	180.8	181.0	229.8	229.3	266.4	264.9	176.1	174.4
November	239.5	238.5	181.2	181.4	230.4	229.9	267.5	266.0	176.8	174.9
December	240.3	239.3	181.5	181.8	231.0	230.5	268.6	267.1	177.5	175.4

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	-10.51	-10.51	168.7	168.7	3885	3889	1676	1679	6.7	6.7
August	-9.90	-9.90	170.1	170.2	3921	3924	1687	1692	6.8	6.8
September	-11.50	-15.50	171.0	170.3	3942	3934	1691	1696	4.8	9.0
October	-10.68	-11.47	171.1	170.6*	3967	3959	1694	1698	2.2	7.3
November	-10.92	-11.93*	171.3	171.4	3992	3981	1700	1701	-3.5	5.6
December	-11.16	-12.65	171.9	171.6	4016	4007	1706	1705	-6.5	3.5
January 1986	-11.01	-11.84	171.6	170.9	4043	4025	1711	1708	-3.6	0.9
February	-11.96	-11.69	171.9	170.5	4067	4048	1714	1713	-0.9	1.6
March	-11.44	-11.73	172.2	171.0	4101	4072	1723	1717	0.5	2.7
April	-10.27	-11.42	171.8	171.4	4122	4095	1727	1722	1.2	3.5
May	-11.46	-10.98	171.5	170.8	4144	4118	1729	1727	2.1	3.8
June	-12.21	-10.72	172.2	170.3	4157	4142	1728	1731	1.8	3.1
July	-9.73	-10.63	171.6	169.5	4176	4166	1729	1735	0.5	2.4
August	-11.48	-10.15	170.9	169.2	4197	4183	1731	1735	-3.6	1.7
September	-11.32	-9.97	170.8	169.6	4218	4203	1733	1737	-6.5	0.8
October	-11.20	-10.15	170.3	169.4	4239	4226	1736	1741	-6.5	-2.4
November	-10.96	-9.71	170.9	170.0	4262	4250	1739	1744	-7.3	-2.9
December	-10.04	-9.53	171.3	170.5	4286	4273	1743	1748	-7.8	-4.2

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	228.0	227.9	595.8	595.8	2490.5	2490.6	7.88	7.88	7.16	7.16
August	229.3	229.4	605.9	606.0	2513.7	2514.0	7.90	7.90	7.32	7.32
September	231.3	231.6	611.7	611.9	2528.4	2528.7	7.92	7.92	7.42	7.27
October	231.7	231.2	610.5	611.3	2540.5	2533.4	7.95	7.99	7.40	7.33
November	232.8	232.6*	612.6	614.1*	2557.1	2545.0*	8.15	7.89*	7.58	7.28*
December	234.0	233.8	615.3	617.2	2573.6	2562.9	8.29	8.02	7.64	7.36
January 1986	235.4	235.1	619.1	620.2	2590.4	2580.5	8.25	8.05	7.66	7.38
February	236.8	236.3	622.3	622.7	2606.8	2596.1	8.36	8.16	7.79	7.53
March	238.1	237.7	625.3	625.9	2623.2	2614.6	8.50	8.23	7.92	7.56
April	239.3	238.6	628.2	627.5	2640.4	2629.1	8.59	8.20	7.98	7.52
May	240.5	240.0	630.6	631.2	2655.2	2647.9	8.55	8.22	7.95	7.48
June	241.7	241.1	633.0	632.9	2667.3	2661.0	8.42	8.17	7.86	7.43
July	243.0	242.4	635.0	635.1	2682.5	2673.6	8.26	8.06	7.74	7.27
August	244.3	243.6	637.9	637.7	2700.3	2690.6	8.12	7.93	7.63	7.15
September	245.6	245.0	640.8	640.7	2719.6	2706.7	8.01	7.76	7.46	7.12
October	247.0	246.3	644.4	644.1	2738.5	2727.3	7.86	7.62	7.45	7.08
November	248.3	247.5	648.3	646.7	2755.0	2744.6	7.71	7.43	7.43	7.03
December	249.6	248.8	650.7	649.4	2772.1	2759.6	7.59	7.18	7.41	6.87

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1985	10.97	10.97	8.81	8.81	7.56	7.56	7.74	7.74	9.50	9.50
August	11.05	11.05	9.13	9.08	7.72	7.72	7.81	7.81	9.50	9.50
September	11.07	11.07	9.32	9.32*	7.83	7.83	7.93	7.93	9.50	9.50
October	11.08	11.02	9.25	8.96	7.82	7.80	7.90	7.88	9.50	9.50
November	11.20	10.54*	9.30	8.53	8.16	7.73*	8.26	7.83*	9.50	9.50*
December	11.38	10.31	9.36	8.25	8.30	7.86	8.42	7.98	9.50	9.50
January 1986	11.40	10.35	9.39	8.30	8.14	8.03	8.27	8.15	9.88	9.50
February	11.46	10.53	9.46	8.49	8.35	8.20	8.49	8.31	10.00	9.78
March	11.51	10.69	9.52	8.66	8.46	8.26	8.63	8.37	10.00	10.00
April	11.63	10.73	9.64	8.75	8.50	8.20	8.67	8.30	10.11	10.00
May	11.65	10.77	9.66	8.75	8.46	8.16	8.65	8.28	10.50	10.00
June	11.55	10.62	9.63	8.58	8.37	8.11	8.49	8.26	10.50	10.00
July	11.48	10.57	9.53	8.51	8.15	8.03	8.36	8.19	10.39	10.00
August	11.36	10.43	9.37	8.37	8.07	7.86	8.29	7.99	10.00	9.73
September	11.21	10.22	9.19	8.18	7.96	7.74	8.17	7.93	10.00	9.50
October	11.07	10.06	8.99	8.03	7.85	7.53	8.02	7.75	10.00	9.50
November	10.96	9.97	8.82	7.98	7.63	7.36	7.86	7.58	9.51	9.50
December	10.85	9.76	8.68	7.71	7.56	7.12	7.69	7.35	9.50	9.26

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